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SUPERMARKET BUSINESS

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PART ONE OF TWO PARTS

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JUNE 1988

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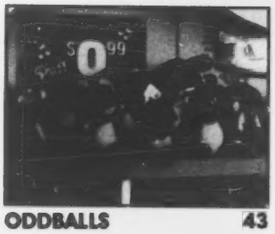
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EDITOR'S VIEW

By Ken Parich, Editor-in-Chief

Of produce and taste

It is truly a marvelous development that in this country we can have fresh fruit and vegetables available in nearly all seasons of the year in nearly all parts of the country. I mean that sincerely.

But there are times when I feel we pay an unnecessary price—not so much in dollars, but in taste and other measures of quality. And, of course, almost all the other measures of quality are usually reflected in taste.

And I do not mean to champion the people who want us to go back to all local farming, no pesticides and no inorganic fertilizers, regardless of the consequences. I also realize that when a group is at the ramparts of a radical movement, it can brook no compromises—or so it usually feels. And so it has been with the so-called organic farming movement, and the natural foods movement. I do not champion them because it is usually next to impossible to ever "go back" to any other time in anything. The best we can usually do, is to admit our mistakes, stop doing what we must stop doing, and go on from there.

The gourmet's farm stand

But anyone can see that there is some argument on the side of Tom Chino, of The Chino Farm of Rancho Santa Fe, north of San Diego, that is managed by the Chino family of Japanese American farmers. This is the farm that is widely recognized as the gourmet's, and the gourmet restaurant's, farm stand. Marion Burros of *The New York Times*, in her column, "De Gustibus" (of taste), recently interviewed Mr. Chino on how he manages to grow such marvelous produce, and how he feels about most commercial produce.

In her column, she quotes Tom Chino, who does not have many nice things to say about the produce industry, or supermarkets either. Mr. Chino feels that what is grown commercially and how it is harvested and packaged has little to do with taste and quality of the produce.

"The prime determinants are how well produce survives transportation and how good it looks on supermarket shelves," says Mr. Chino. Mr. Chino was going to say these things to a group of food writers at a seminar held recently, but the sponsors cancelled Mr. Chino when they got a look at his speech.

Throwing stones?

I think that was too bad, but I understand it. The sponsors didn't want to look as if they were throwing stones at supermarket produce buyers, who also happen to buy the sponsors' products. Perhaps the produce industry itself should invite Mr. Chino to one of its own meetings. I am sure that supermarket produce buyers are tough enough to take any criticism, and many do want to learn. After all, the produce buyer doesn't dictate what is grown and shipped, but he might have a positive influence if he expresses some concern. And it isn't that we all haven't heard all this before, and that we haven't all said it to each other at one time or another. That's exactly why it should be said by somebody like Mr. Chino.

After all, bananas were not *always* shipped on container ships and in boxes. They used to be shipped right on the banana "hands," and there was a lot of damage and a lot of waste. Somebody had to do something about that.

It's also not very long ago that every consumer survey showed that consumers wanted their produce "loose," or in bulk, as we say. But at the time, they got 90 percent of it packaged. Even bananas came wrapped in film. Today, most produce is displayed in bulk, because some courageous retailers decided that people wanted it that way and it looked more "natural."

Learning to localize

As we learn to localize more and more marketing and merchandising, we may have to learn more about localizing the marketing and merchandising of produce. Nobody means to say that it is possible to keep the nation in fresh lettuce without growing most of it in California, Florida and Arizona. It requires great, open acreages, with lots of water and sunshine. But we are importing more and more Mexican, Chilean and Brazilian fruit in the off-season. It is expensive. But if the consumer wants it, it's worth it. After all, there's nothing cheap about lettuce just before we get that first winter crop. So "price" is not the only criterion we look for.

Similarly, if some consumers want ripe tomatoes, and ripe or nearly ripe bananas, it should not be too difficult to get them in season. I clearly remember when supermarket warehouses had banana holding rooms. But there are chains (at least in the East) that see nothing wrong with displaying emerald green bananas that will take a week to ripen, if I buy them when they're on display.

Similarly with melons. Just the other week, I let a cantaloupe really ripen (to where the outside begins to turn white—not green). It took almost a week. The fruit was marvelous. I'd almost forgotten what a ripe cantaloupe tasted like. Certainly you won't get them in most restaurants.

Seeing red

But not all fruits will ripen off the tree or vine. It is common, today, to see displays of sort-of-ripe, red tomatoes with a sign that says "vine ripened tomatoes." Well, we've got the sign right, but the product still has a long way to go. It's the same with some of those tomatoes with the little brand names on them. They're red, but are they ripe?

And the waste involved is not an answer. For the consumer, if it is a piece of fruit that will never ripen, it is all waste. And supermarkets are not the only offenders. Unless I am in a four-star restaurant, I almost always ignore the tomatoes. There can't be anything more local than a restaurant, but where do they

Continued on page 10

STORE PLANNING

The Future for Membership Clubs: Is This 'Limited Assortment Stores II?'

The clubs have made steady gains, but their impact is likely to be more limited than some industry pundits would have us believe.

During the last two or three years, there has been a deluge of attention given to the rapid development and growth of membership wholesale clubs. Some observers have pointed to the high volumes (up to $125 million per unit per year) of these retail/wholesale hybrids that sell food, groceries and general merchandise to wholesale and individual customers. Other observers have claimed that "one out of four shoppers visit them regularly," and have projected annual club sales of over $20 billion by 1990 (see Table 1).

But is this attention and concern is overdone— at least from the viewpoint of the supermarket industry. A good look at the concept produces strong feelings of déjà vu. For example, although the current Price Club formulation dates only from 1976 and is undeniably innovative and successful (see Table 2 for a summary definition of membership wholesale clubs), this is now the third time around for membership retailing. The first time around was during the 1930s and the second was in the 1950s and 1960s (remember Gemco and Fedco?).

In addition, there are some interesting parallels between membership clubs and limited assortment stores. The latter grew rapidly in the late 1970s and early 1980s and then flattened (to put it mildly) to their present minor position in the U.S. grocery industry.

There are four main reasons for exercising caution about the future significance of membership clubs within the retail grocery industry:

☐ **High cost.** The clubs have heavy start up and entry costs. For example, it reportedly costs $10 million to open each new Pace Membership Club.

For this reason, many of the club chains are now owned and financed by major corporations. Sam's Wholesale Club is owned by Wal-Mart, B.J.'s by Zayre, and Price Savers by The Kroger Co.

☐ **Heavy volume.** At a gross margin of ten percent or less, the membership club needs heavy, steady volume for profitability.

Sam's Wholesale Club, above, has annual sales of $50 million plus with a severely limited line of merchandise.

Table 1
THE GROWTH OF MEMBERSHIP CLUBS

YEAR	NO. OF UNITS	ESTIMATED INDUSTRY SALES ($ millions)
1976*		
1983	36	1,000
1986	228	8,200
1987	325	12,000
1988	?	14,000 ?
1990	?	20,000 ?

*Price Club originates the concept

If these are achieved, the club has minimal working capital requirements, but if not, the club can lose money rapidly, as some operators have found.

To date, only Sam's, Price Club and Costco appear to have been consistently profitable. The Wholesale Club and The Warehouse Club have reported losses, Super Savers had to be acquired by Sam's and The Sports Club (a sporting goods variant) has just filed for bankruptcy under Chapter 11.

☐ **Sales to businesses.** At face value, the available sales statistics tend to overstate the potential impact of clubs on the retail grocery industry. For example, food, groceries and sundries *do* typically represent between 1,500 and 2,000 SKUs, and account for between 43 and 59 percent of total club sales.

However, wholesale/business members account for the majority of club sales (see Table 2) and include the operators of restaurants and small grocery stores. For example, at Kroger's Price Savers operation, business customers account for a reported 62 percent of total sales even though they represent only ten percent of all customers.

Further, the better performing (that is, more profitable) clubs tend to be those with the highest proportion of business sales. This suggests less of an impact on supermarkets and retail grocers in general, and more on wholesalers.

This conclusion is supported by the results of regular telephone research done in San Diego, the birthplace of the membership wholesale club, by DSR Marketing Systems Inc.

During three years of studies (1985 through 1987), the market share of consumer spending on food and groceries achieved by membership clubs is estimated to have ranged between only 1.0 and 1.5 percent.

☐ **High threshold.** Given their dependence on business customers and high volume, the clubs have very high market threshold needs and, to date, are primarily a "major metro" phenomenon. In general, a ten-mile radius trading area is required, including a population of between 400,000 and 500,000 versus "only" 120,000 for a

Continued on page 59

By David Rogers, DSR Marketing Systems, Inc.

SAMI UPDATE

HEALTH & BEAUTY AIDS: SAMI FOUR-WEEK FOOD STORE UNIT TRENDS VS. YEAR AGO

PRODUCT GROUP AND CATEGORY	% CHANGE VS. YEAR AGO 4 WEEKS ENDING 1/29/88	4 WEEKS ENDING 2/26/88	4 WEEKS ENDING 3/25/88
BABY NEEDS			
Baby Powders	−10.3	− 7.8	−10.1
Baby Oils, Creams & Lotions	+20.5	+ 7.9	+ 8.1
Infant Clothes	−14.3	−17.3	−18.7
Nursing Supplies	+ 1.6	+ 1.3	+ 2.2
DEODORANTS			
Sprays	− 3.8	− 7.2	+ 2.2
Roll-Ons	+ 4.1	+ 4.3	+ 4.0
Stick Deodorants & Pads	+ 9.9	+ 7.6	+ 8.3
Creams	−13.9	−10.2	− 8.5
Deodorants & Talcum Powders	+10.0	+49.8	+13.4
Feminine Hygiene Deodorants	+28.2	+44.3	+22.8
Foot Deodorants & Athlete's Foot Remedies	+ 5.8	+ 7.4	+ 8.4
Feminine Douches	+ 9.1	+15.8	+11.0
FIRST AID			
Antiseptics	+ 3.4	+ 0.7	+12.5
First Aid Products	+ 3.4	+ 2.9	− 1.9
HAIR CARE NEEDS			
Shampoos	+ 0.9	0.0	− 6.4
Hair Sprays	+28.2	+17.3	+11.6
Hair Conditioning Rinses	+ 3.6	+ 3.7	+ 1.9
Hair Setting Needs	+13.7	+ 9.4	+ 2.3
Home Permanent Kits	− 8.9	−12.9	−12.8
Hair Coloring	+ 3.0	+ 7.2	− 1.1
Hair Dressing Needs	− 5.1	− 4.4	− 7.3
ORAL HYGIENE			
Toothpastes & Powders	+ 0.1	+ 2.5	− 1.9
Mouthwashes	+11.2	−10.6	−12.9
Breath Fresheners	− 2.6	− 6.3	− 7.4
Denture Cleaners	− 7.8	− 3.6	+ 0.6
Denture Adhesives	− 0.5	+ 0.5	+ 3.1
Toothbrushes	− 1.7	+ 4.1	+ 6.4
Dental Aids	− 2.6	+ 3.1	+12.9
PROPRIETARY REMEDIES			
Antacids	+ 3.6	+ 5.6	+ 1.7
Internal Analgesics	+ 0.8	+12.4	+ 8.1
External Analgesics	− 2.0	− 4.7	+ 3.3
Cold Remedies	+ 0.5	+13.8	+ 3.4
Nasal Sprays—Drops—Inhalers	− 5.0	− 1.5	− 5.7
Chest Rubs	−11.5	+ 9.7	− 2.7
Cough Remedies	−10.8	+ 4.4	+ 1.8
Laxatives	+ 1.5	+12.8	+ 7.9
Sleeping Aids	+13.4	+15.5	+14.3
Tranquilizers	+ 4.1	− 7.2	+ 6.5
Synthetic Vitamins	+13.5	+ 7.0	+ 9.4
Eye Care Products	+31.1	+15.1	+12.4
Appetite Suppressants	+ 4.4	+26.4	+12.8
SHAVING AIDS			
Shaving Creams	+ 8.9	+ 1.9	+ 1.8
Pre-Shave Lotions	+ 4.9	+ 0.5	− 1.8
After-Shave Lotions	+ 7.4	+ 3.9	− 0.7
Razor Blades	− 3.5	− 2.9	− 4.4
Razors & Blades	− 6.0	− 1.7	− 4.0
SKIN CARE AIDS			
Hand & Body Creams & Lotions	+20.6	+ 5.5	+ 4.0
Facial Preparations	+ 1.5	+ 4.1	+10.2
Lip Care Products	+ 8.0	+ 9.4	− 1.6
Suntan Lotions & Oils	+56.2	−28.2	+22.7
Cosmetic & Medicated Skin Aids	+ 4.1	+ 3.4	+ 4.7
TOTAL ALL CATEGORIES			

HBA Gains Face Slowdown in March

Good gains for deodorants, proprietary remedies and skin care products offset falling demand for hair care, oral hygiene and shaving products.

BY ALAN MILLER JR.

In the parlance of Wall Street, health and beauty aids sales underwent a modest "correction" during the latest four-week SAMI reporting period, which ended March 25, 1988. Unit sales grew 1.8 percent above the level reached during the corresponding period one year ago, but this increase was substantially below the pace-setting 4.6 percent hike recorded during the preceding 28-day period.

On a dollar-for-dollar basis, all 52 HBA categories combined rose 6.2 percent, exceeded only by the seven percent upsurge among frozen foods, a category that was heavily promoted in March. Four-week sales in these HBA categories totalled $655.4 million, a gain of more than $38 million over the same period one year ago.

The dollar gain rate for HBA items was more than double the increase for dry grocery non-food (up 3.0 percent) and dry grocery food (up 2.8 percent). The 1.8 percent increase in HBA units was well ahead of the 0.1 percent increase for dry grocery nonfoods products, but lagged behind the poundage performance among the three food departments: frozen, refrigerated and shelf-stable.

Unit volume in five of the eight HBA product groups moved higher, but trailed behind last year's movement in three groups. The highest gain rate came in deodorants (up 6.4 percent), followed by the increase for skin care aids (up

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SAMI UPDATE

5.7 percent) and proprietary remedies (up 4.9 percent). The losses were found among oral hygiene products (down 2.8 percent), shaving needs (down 2.5 percent) and hair care needs (down a mere 0.1 percent).

There were 34 HBA product categories in the plus column, 18 in the minus column. There were ten categories with double-digit gain rates, the best being suntan lotions and oils, which grew at a clip of 22.7 percent as tanning season commenced. There were only four HBA categories with loss rates in excess of 10 percent over the past year: infant clothes (down 18.7 percent), mouthwashes (down 12.9 percent), home permanent kits (down 12.8 percent) and baby powders (down 10.1 percent).

Although two of the four HBA categories were in the losers' circle, gains of 8.1 percent for baby oils creams and lotions, and 2.2 percent for nursing supplies were sufficient to create a 1.1 percent increase for the whole product group. The only important new product to surface among baby needs during the past two years has been Baby Magic Rich N' Creamy, which has managed to become a major brand without taking volume from the regular Baby Magic line.

Share gains in deodorants

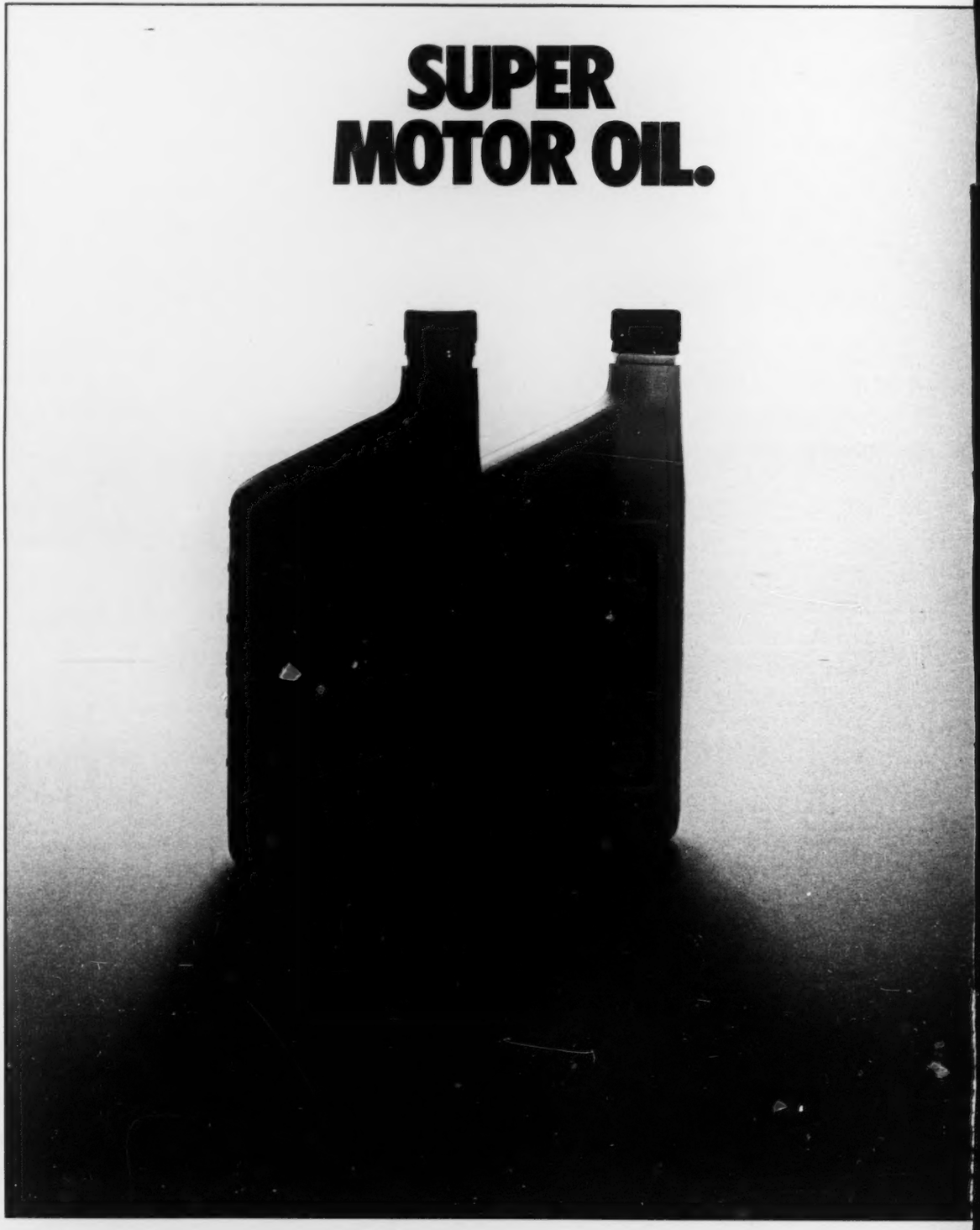
The only personal deodorant category to demonstrate sales weakness was creams, a category which has been fading over a long period. The highest gain rates came among feminine hygiene deodorants (up 22.8 percent), deodorant and talcum powders (up 13.4 percent) and feminine douches (up 11.0 percent).

Strong performances by the leading brands in the deodorant talcum powder and feminine douches categories were responsible for the solid increase. Both Shower to Shower and Massengill, the leaders in the two categories, enjoyed share gains. Spray deodorants were able to move over to the plus side of the ledger in contrast to the 2.9 percent loss they had experienced for the past 12 weeks. The four-week gain rates for both roll-on deodorants (up 4.0 percent) and stick deodorants and pads were very close to their 12-week trend rates. Foot deodorants and athlete's foot remedies showed a gain of 8.4 percent with Micatin and Tinactin faring extremely well of late.

There are only two categories in the first aid product groups and the results were mixed in March. First aid antiseptic unit volume rose 12.5 percent, due, in part, to the completion of a national roll-out for Burroughs-Wellcome's Polysporin and a strong sales period for Thompson Medical's Cortizone-5. Volume of first aid products trended downward 1.9 percent as compared with a 2.9 percent gain in the February reporting period. There have not been any important new products in this category during the past year.

Shampoo is off

A loss of 6.4 percent in the high volume shampoo category was enough in itself to create a negative trend in the hair care needs product group. There were also losses for home permanent kits (down 12.8 percent), hair dressing needs (down 7.3 percent) and hair coloring (down 1.1 percent). The drop in shampoo volume came despite the introduction of three new brands during the past year: Textra, Sesame Street and Clean



SAMI UPDATE

& Clear. Helene Curtis' Salon Selectives completed national distribution.

Hair spray volume continues to soar, but the most recent four-week sales gain is lower than the 18.9 percent increase on a 12-week basis or the 16.3 percent gain for the full year. There were small gains for both hair conditioning rinses (up 1.9 percent) and hair setting needs, but in each instance, the most recent 28-day gain was less than the performance on a 12 week basis.

Listerine in front again

The loss in the oral hygiene product group can be attributed to weakness among mouthwash products. The sales level in the March 1987 period was inflated by high sales of the Scope peppermint flavor that had just been introduced. During the 12 weeks ending March 25, dollar sales of Listerine once again passed Scope for the first time in nearly a year. There were two new national brands of mouth wash introduced during the past 52 weeks: Colgate Tartar Control and N'ice. Plax has now become entrenched in the number three spot in the category.

Sales of tooth paste and powder lagged behind the March 1987 level in spite of the presence of four new brands that were not marketed in March of last year: Aim Anti-Tartar, Oral B Muppet, Close-Up Tartar Control and Crest for Kids. In addition, Arm & Hammer Dental Care and Caffree rolled out into new markets and both Colgate Tartar Control and Ultra Brite enjoyed improved shares.

There were four-week gains for three oral hygiene categories that show minus trends on an annual basis: denture cleaners, denture adhesives and toothbrushes. Unit sales of dental aids climbed 12.9 percent.

There were only two categories of proprietary remedies with loss rates out of the 14 tracked by SAMI. Nasal sprays-drops-inhalers fell 5.7 percent, while chest rubs moved down 2.7 percent. The other two categories covering respiratory ailments were ahead, although not as dramatically as cold remedies (up 3.4 percent) and cough remedies (up 1.8 percent).

Big gains for aspirin

The big news in the internal analgesics category was the focus of attention on aspirin resulting from a well-publicized *The New England Journal of Medicine* report, which suggested that daily use might help prevent heart attacks. The 8.1 percent increase in the entire category that followed that news translates to almost two million units in one month alone.

Double-digit gain rates were achieved by sleeping aids (up 14.3 percent), eye care products (up 12.4 percent) and appetite suppressants (up 12.8 percent). Sominex is the growth brand among sleeping aids and new Stay-Trim has expanded volume in the appetite suppressants category. Two new products by Ciba have helped the eye care products category to grow: Aodisc and Ciba Vision.

There was only one category in five among shaving needs with plus volume. Shaving creams were ahead 1.8 percent for the four weeks, 4.2 percent for the 12 weeks and 2.7 percent for the full year. Modest loss rates were found in the pre-shave (down 1.8 percent) and after shave categories (down 0.7 percent), while high rates of attrition befell razor blades (down 4.4 percent) and razors and blades. ■

SUPER COMMITMENTS.

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STORE PLANNING

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super warehouse store.

These market requirements mean that there can only be a small number of clubs in any metropolitan area, thereby reducing the long term level of impact on the industry.

The Wal-Mart operation is now developing a "small store" prototype (68,000 square feet, 2,800 SKUs) for smaller markets, presumably prompted by their need for more choices of location. Obviously, the jury is still out on this scaled-down operation, but the reduced number of SKUs in these smaller units will help maintain the limited level of impact.

The membership wholesale clubs have successfully found a niche within the distribution network and, in some situations, they have filled a low-end void in consumer grocery spending. They will also have some impact on the supermarket industry through their low-price impression. But their long-term impact and role within the retail grocery industry is likely to be more limited than some of the projections aired to date by industry pundits. ■

Table 2
CHARACTERISTICS OF MEMBERSHIP CLUBS

- **A retail/wholesale hybrid**
- **Size (gross area):** 100,000 square feet
- **SKUs:** 2,000-5,000 (versus 20,000 for a supermarket)
- **Gross margins:** 8-13 percent overall (groceries 6-9 percent)
- **Expenses:** 6-8 percent (labor 3-5 percent)
- **Break-even sales:** $25-35 million per year.
- **"Typical" sales per unit:** $30-50 million (Sam's $50 million plus, Price Club $100 million plus)
- Spartan fixtures and facilities.
- Little or no advertising.
- Secondary (cheap) sites.
- Limited hours of operation.
- Limited labor and services.
- **Customers.** Wholesale customers pay an annual fee (around $25). Prices paid by individual customers are marked up five percent.
- **Customer mix:** Wholesale (business) customers account for 5-30 percent of all customers *but* 50-60 percent of sales.
- **Sales mix:**

Food	20-35% (of total sales)
Groceries/Sundries*	40-60%
General Merchandise	40-60%

*That is, candy, HBA, tobacco products, cleaning supplies, alcohol, etc.

COVER STORY

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demographic attributes they have in common.

☐ Identifies what demographic features may cause stores to have common behavior.

8. **Share:**

☐ Estimates the relative importance of retail product categories for each store in the system, based on demographics.

9. **Real Estate:**

☐ Identifies sites where stores might be successfully located.

☐ Evaluates store sites for success potential, by analyzing shopper profiles and shopping patterns for any given map coordinates.

☐ The system contains the data and analytics allowing retailers to evaluate site selections in the privacy of their own offices.

Three additional modules available only with the Sales Manager and Product Manager series are:

1. **Promotion Proposal Generator:**

☐ A planning system for developing custom trade promotion programs to respond to local opportunities.

☐ Produces full edited text, customized promotion proposals, ready to send for approval.

☐ Has ability to build promotion recommendations based on a product's potential and a retailer's cost for various merchandising programs.

☐ Proposal is developed by considering a product's sales potential by store and customer, store characteristics, current trade offers and historical volume by pack size/flavors.

☐ Develops performance requirements.

2. **Fund Administrator:**

☐ A program for district sales offices that manages local promotion budgets.

☐ Monitors fund status by trade customer.

☐ Gives immediate knowledge of remaining funds.

3. **Deployment:**

☐ Suggests how best to assign retail staff for contacting stores.

☐ Looks at purpose of visit, store demographics, location, driving time and individual sales responsibility. ■

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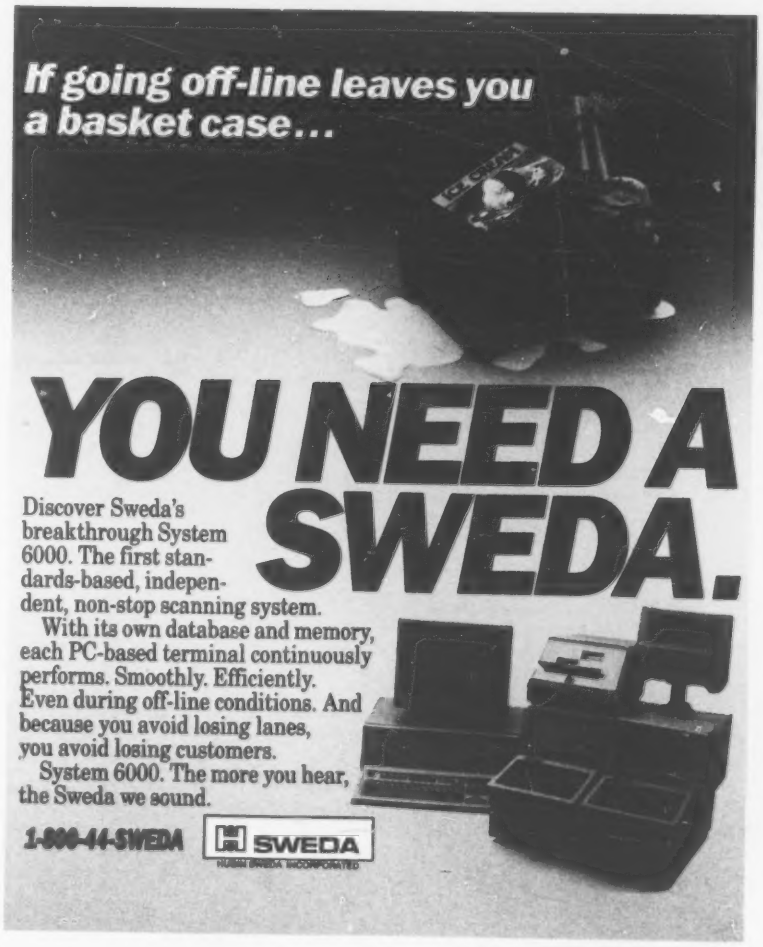
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